

Strategy Profile

Global Tactical Asset Allocation (GTAA) is an actively managed, multi-asset class strategy designed to produce alpha from a top-down investment discipline. The strategy features:

- A global approach incorporating asset class, country, sector, and currency opportunities
- A combination of quantitative techniques and fundamental analysis
- A proven strategy that has been in effect since 1995

Morgan Stanley



Focusing on Asset Allocation

Actively managed investment plans have the capability to generate excess returns through two principal strategies:

1. By allocating investments to security selection managers who have the potential to outperform or
2. Through tactically allocating between a broad array of asset classes, countries, regions, industry sectors, and currencies.

Institutions primarily have focused on generating alpha from bottom-up security selection strategies, relying on a process that attempts to select the best managers within each broad asset category. However, this approach fails to capitalize on the ability to add alpha by tactically allocating between asset categories, which can provide significant benefits. GTAA seeks to harvest this source of alpha, which is often ignored by institutional investors.

GTAA differs from traditional “bottom-up” approaches, because it seeks to derive its source of outperformance from macro or “top-down” decisions. Whereas bottom-up managers must decide which individual securities to overweight and underweight, a GTAA manager would have to decide which country indexes to overweight and underweight. Other types of macro decisions may involve broad asset classes (global stocks and bonds), regions/countries within global stocks and bonds, currencies, as well as sectors. This top-down distinction means that GTAA managers are not looking for inefficiencies between securities, but rather inefficiencies between entire markets and regions.

Maximizing Investment Opportunities

Unlike most traditional domestic asset allocation strategies that make one allocation decision of equities relative to bonds, Morgan Stanley Investment Management’s GTAA strategy exploits a broader set of investment opportunities. Expanding the investment universe from domestic to global increases the opportunities to identify and exploit inefficiencies, in order to generate alpha.

Global Coverage

Asset Class	Region/Countries	Sectors	Currencies	Other
Equities	21 Equity Markets	10 U.S. Equity Sectors	6 Major Currencies	Commodities
Fixed Income	10 Fixed Income Markets	10 European Equity Sectors		
Cash		5 U.S. Fixed Income Sectors		

Global Tactical Asset Allocation expands the traditional investment opportunity set and seeks sources of alpha that are differentiated from bottom-up managers.

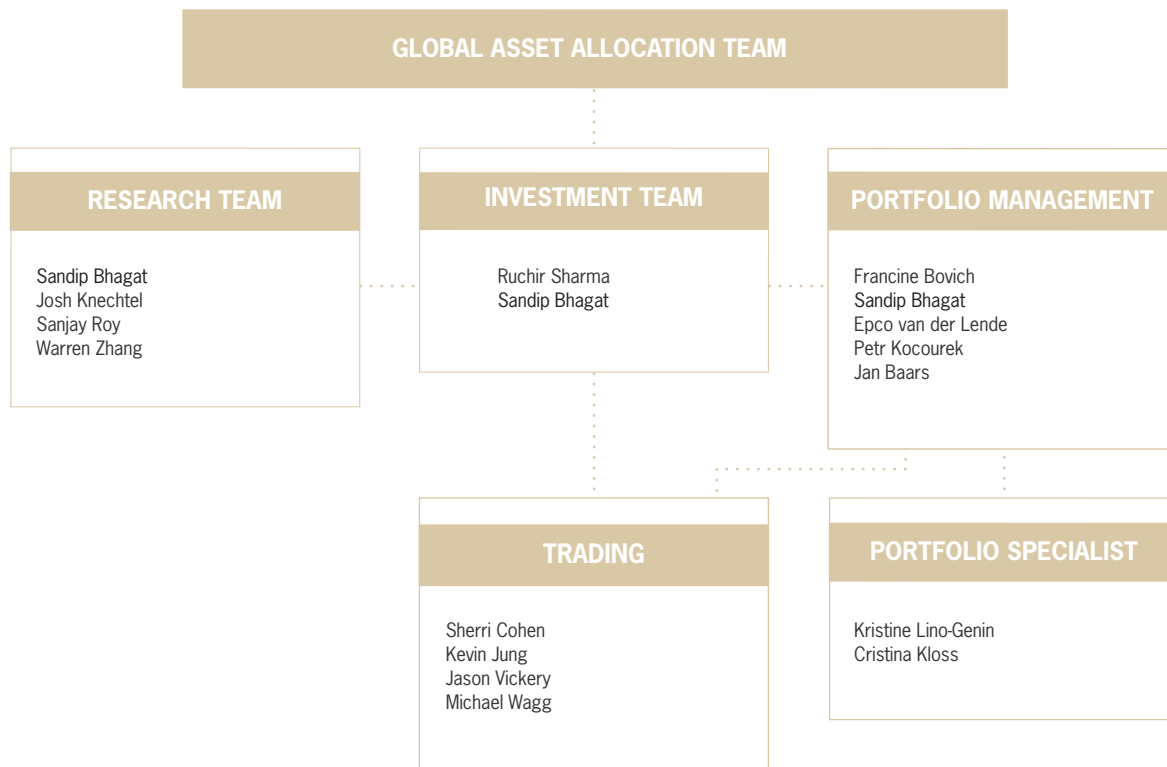
A Team-oriented Approach to Investing

Morgan Stanley's investment strategies benefit from a team-oriented approach to investing. The Global Asset Allocation team generates original investment research and asset allocation views, and implements a customized strategy for each of our clients depending on their unique requirements.

Investment and Research Teams are responsible for producing investment analytics and making asset allocation decisions across asset classes, markets, sectors, and currencies. The investment team works closely with the Research team in the analysis and development of views. We consider the research process to be a critical driver of our investment decision making.

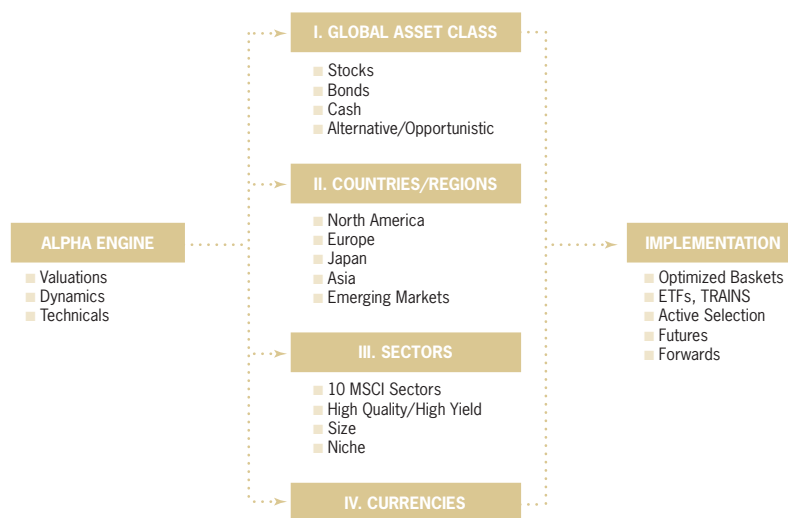
Portfolio Management Team is responsible for reflecting the ideas and research generated by the Investment and Research Team in the individual client portfolios, subject to specific client guidelines.

Trading Team is responsible for executing trading activities in the cash and synthetic markets according to investment decisions.



Top Down Analysis

Our Global Tactical Asset Allocation investment process follows a hierarchy of decision-making. First, we assess the relative attractiveness of global asset classes. Within each asset class (stocks, bonds) we assess the relative attractiveness of regions and countries. For select equity and fixed income regions we occasionally make assessments regarding style (e.g. size, duration). We also evaluate the relative attractiveness of currencies. Finally, for portfolios that allow us to utilize alternative investments, we evaluate opportunistic assets such as high yield, gold and oil. This hierarchy of decision-making is shown below:



Our investment views are the result of rigorous fundamental research and analysis conducted internally by team members. The inputs to our process include macroeconomic, market and aggregates, and sector/company data. We use a flexible approach that employs both quantitative and qualitative techniques, allowing us to evaluate a comprehensive set of information and develop appropriate investment views. This flexible approach has been central to our success and distinguishes us from traditionally quantitative methods.

At each level of the decision hierarchy, the Asset Allocation Team utilizes a variety of quantitative and qualitative measures to determine the relative attractiveness of global asset classes, markets, sectors, and styles. Our analysis is based on a strict adherence to a three-pronged assessment of **valuations**, **dynamics** and **technicals**.

Top Down Analysis (cont'd)

Valuations are an indication of the magnitude of an asset's return potential. For equities, an example is the price-to-earnings multiple of a market. For fixed income, an example is the level of real yield. Valuation measures can be compared to the market's own history (time-series analysis) or to other countries/markets (cross-sectional). Examining both time-series and cross sectional valuation rankings, we have developed several proprietary models that evaluate valuation attractiveness of asset classes and sectors.

Dynamics are an indication of direction and catalyst for realizing an asset's return potential. For equities, an example is the trend in corporate earnings revisions. An example of dynamics affecting fixed income markets is the change in inflation. Dynamics are also considered in both cross-sectional and time series frameworks. We have developed several proprietary models that evaluate attractiveness based on dynamics for asset classes and sectors.

Technicals are important in the timing of investment decisions and may provide contrarian signals. Technical factors include sentiment, price trend, volatility, and sector/style concentration of performance. In the short term, liquidity and investor sentiment can be important determinants of market performance. However, when sentiment becomes extreme (e.g. extreme bullishness, or overbought indicators), a contrarian view is often justified.

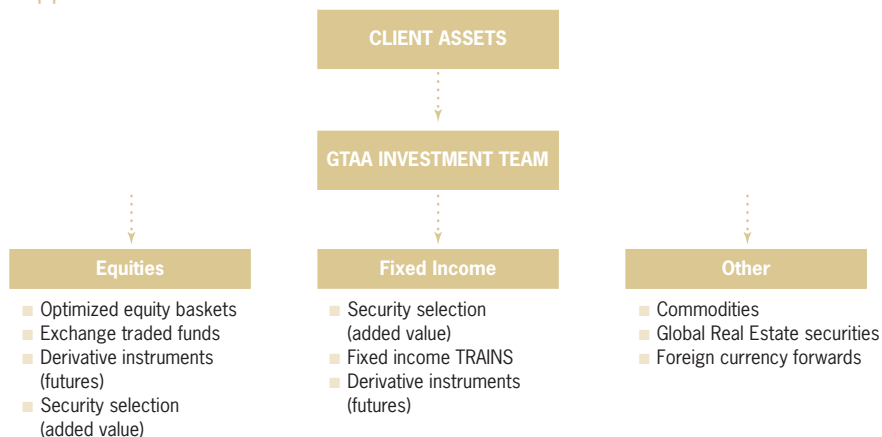
Examples of Factors that Drive Returns

Valuation	Dynamics	Technicals
<ul style="list-style-type: none"> • Absolute (relative to history) • Relative (asset class, countries, sectors) • Adjusted by bond yields • Relative real yields 	<ul style="list-style-type: none"> • Earnings revisions • Earnings fundamentals • Central Bank policy • Inflation expectations • Correlations with economic cycle • Relative Trends 	<ul style="list-style-type: none"> • Sentiment surveys • Liquidity trends • Relative momentum

The Tools of GTAA

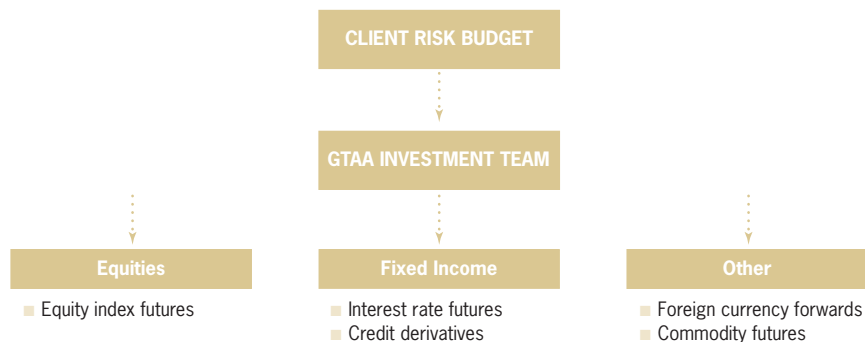
In seeking to meet the customized needs of our clients, we can implement our GTAA strategy in two ways:

1. Fully-Funded Approach



In a fully-funded approach, the client commits a portion of their assets directly to our Global Tactical Asset Allocation strategy. A fully-funded approach allows for maximum flexibility in the management of the mandate given the broad range of investment instruments. The investment objective is to outperform a customized financial benchmark agreed upon by the client and the GTAA investment team.

2. Overlay approach



In recognition of our clients’ evolving needs, we have developed capabilities to implement our global tactical asset allocation process through an overlay framework. Within this framework, the investment manager invests in a portfolio of derivatives which “overlay” real assets (physical securities), allowing for easy access to our top-down alpha without disrupting the client’s underlying portfolio structures. The real assets remain in the custody of the client. Similar to a fully-funded mandate in which the client indicates the level of risk tolerance, in an overlay approach the client defines a risk budget, in terms of Value-at-Risk or tracking error.

The Tools of GTAA (cont'd)

“A strategy of using futures for asset allocation by pension sponsors to avoid disrupting the activities of money managers”¹

The choice of a fully-funded or overlay approach depends on the investment goals and needs of the institutional investor. There are advantages and disadvantages to both approaches as summarized in the table below:

Fully-Funded

Pros

- No volatile cash flows to fund
- Operates independently from total fund as an active strategy
- Flexible implementation allows active management of asset classes, countries, sectors, currencies, and security selection

Cons

- Precludes ability to separate allocation manager from bottom-up active managers
- Requires large capital commitment from Fund

Overlay

Pros

- Adds alpha from top-down sources
- No disruption to underlying portfolios
- Low capital requirements
- Maintains liquidity within the strategy
- Scalable in size and risk-taking
- Alpha can be ported

Cons

- Potentially volatile cash flows or cash draw-downs depending on performance
- Implementation through futures restricts active sector allocation

¹ FiscalReference.com

Why Now Is a Good Time For GTAA

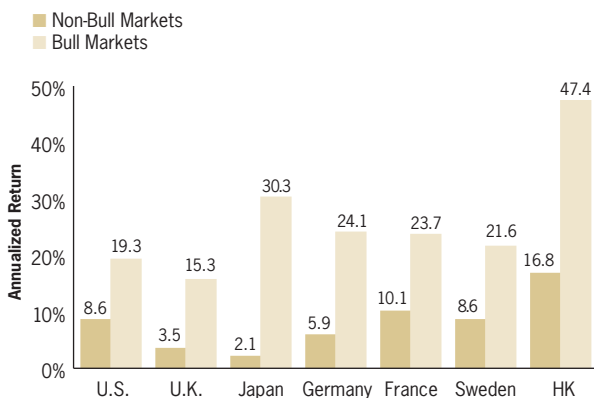
Our research shows that markets rarely begin another secular bull run immediately following a secular bear market correction. The period between secular bull markets (including the correction) usually lasts for at least two years, and can stretch to over a decade. The table below details the results of our analysis.

	Initial Decline from Previous Bull Market Peak	Period Until Next Secular Bull Market* (if period >2 years)
Average Return	-45.70%	7.00%*
Median Return	-43.10%	5.90%*
Average Duration (years)	3.25	19
Median Duration (years)	2.25	13
Number of Periods	34	17

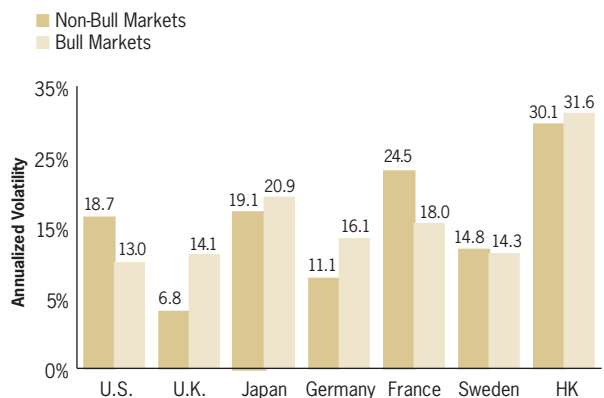
*Annualized returns, does not include 2003

Historically, in periods between secular bull markets equities have been constrained within a broad trading range. Returns typically are limited while volatility can be similar to bull market levels.¹ This rise in volatility combined with low returns result in an unattractive risk/reward trade-off.

Annualized Returns: Bull Markets and Non-Bull Markets (excl. initial correction)



Volatility: Bull Markets and Non-Bull Markets (excl. initial correction)



Investors therefore should look for additional ways to add alpha. Range-bound markets with significant volatility are excellent opportunities for generating alpha through tactical asset allocation.

¹ Source: DRI, MSIM GAA Research

The Importance of Expanding the Opportunity Set

The identification of inefficiencies alone does not always lead to successful production of outperformance, because even a talented investment manager can not identify the inefficiencies 100% of the time. Thus, a broad decision set is needed in order for the investment manager to identify at least some of the inefficiencies that exist. As an example of this concept, we compare the likelihood of success of an investment manager who can only choose between two asset classes (U.S. stocks vs. U.S. bonds) versus an investment manager who can choose between 18 equity markets and 10 bond markets simultaneously. We can simulate the possible outcomes by assuming each manager has an equivalent level of skill, makes investment decisions once per month, and takes on the same amount of active risk. The simulation randomly chooses a long and short portfolio each month, assuming that each manager has a likelihood of being 55% correct. These theoretical portfolio results can then be compared. For each manager, we provide 75 randomized investment paths, and compare the average outcomes using the time period of January 1985–December 2003. These results are summarized below.

	2 Asset Class Manager	28 Asset Class Manager
Summary Results		
Median Annualized Alpha	0.7%	2.8%
Median Annualized Active Risk	2.3%	2.3%
Information Ratio	0.3	1.3
Rolling 12 Month Statistics		
Worst Alpha (median)	-5.4%	-2.3%
25%-ile Alpha (median)	-0.7%	1.3%
75%-ile Alpha (median)	0.6%	2.8%
Best Alpha (median)	1.9%	4.3%
Likelihood of Alpha >0	63%	90%

Source: MSIM Asset Allocation Research

As demonstrated in the table above, the median results for the manager with a broader decision set are definitively more favorable. The lack of success of the manager with a limited decision universe belies that manager's true skill. This example illustrates why past studies of "market timing" have often concluded that it is a loser's game. By limiting a manager's investment universe, the manager has less opportunity to showcase his or her true skill level.

The Importance of Expanding the Opportunity Set

GTAA overcomes the weakness of domestic asset allocation (or market timing) by expanding the investment universe. While the stock-bond-cash decision which is frequently associated with market timing is included in the GTAA decision set, it is only one of many. The table below compares the differences in the opportunity set between GTAA and domestic asset allocation. This expanded universe greatly improves the likelihood that a manager will deliver outperformance.

Expanded opportunity set enhances success of active management

Opportunity set	Investment Choices	
	Domestic	Global
Asset Class	3	3
Currencies	1	5
Countries		
Equities	1	21
Bonds	1	9
Sectors	10	U.S. 10 Europe 10 Japan 10 Total 30
Securities	3,000	19,000

* Excerpt taken from white paper, "The Case for Global Tactical Asset Allocation" April 2004

Conclusion

Morgan Stanley Investment Management's GTAA strategy is designed to leverage the Firm's vast global resources and to provide clients with opportunities that a purely domestic asset allocation strategy cannot deliver. We differ from the competition in terms of our strategy's flexible top-down investment approach and the inclusion of a broad range of asset classes that effectively increases the opportunity set to add value. In addition, our dedicated Global Asset Allocation Team has extensive experience with a proven long-term track record. GTAA is useful to clients seeking additional alpha generating strategies, especially in a low return environment.

Access, Responsiveness, Choice

Client Interaction

Morgan Stanley Investment Management believes that superior client service is as important as superior investment performance. Through our team of portfolio specialists, we aim to provide our clients with the in-depth information needed to understand our portfolio management activities and our latest thinking on the key factors influencing the markets. We are also committed to working with our clients to meet their specific needs, from creating customized reporting, where available, to assisting with asset/liability management. In addition, we have created several Web sites to allow clients increased access to our firm at their convenience.

Public Web Site

Our public Web site (www.morganstanley.com/im) provides updated performance, characteristics, and commentary for all of our investment strategies, and provides access to a range of investment publications and research.

Client Link

Client Link (<https://secure.ms.com>), a private, password-protected Internet site created by Morgan Stanley exclusively for clients, allows access to online account statements (if applicable) and daily market updates and commentary for all major world markets. Client Link also affords participation in online conference calls and access to award-winning Morgan Stanley equity and fixed-income research.

Investment Vehicles

Morgan Stanley Investment Management strategies are typically available through separate account management and pooled investment funds.

- Separate Account Management— Allows clients to customize a portfolio's investment guidelines to meet specific mandates or certain risk and return characteristics
- Pooled Investment Funds— Offer professional management with lower investment minimums

Client-Tailored Services

Morgan Stanley Investment Management's goal is to help our clients address the individual investment issues they face. We strive to work with our clients to fully understand their business and investment needs, offering a range of tailored services and a diverse selection of top-tier investment products. We pride ourselves on our ability to offer the attention and service of a boutique, combined with the global resources of Morgan Stanley.

Our teams of experienced professionals aim to set industry standards for investment expertise and client service. By fostering innovation, encouraging debate, and recognizing achievement, we have created an environment that challenges individuals to achieve their best performance for our clients. We believe such an environment enables us to attract and retain the best and the brightest employees in the business.

Clients benefit from the powerful advantage of having global teams of investment specialists in New York, Philadelphia, Chicago, Houston, London, Amsterdam, Mumbai, Singapore, and Tokyo who seek to capitalize on investment opportunities in all major markets worldwide. Our investment managers enjoy access to global research, company access, and firsthand experience in the world's capital markets, translating to more opportunities for our clients.

We understand that each of our clients has specific goals, objectives and challenges. To identify and help meet these needs, Morgan Stanley Investment Management offers clients a range of services (where applicable):

- Specialized reporting and client service
- Access to the resources of Morgan Stanley
- Secure Web site access
- Customized asset allocation studies
- Asset/liability management
- Proprietary research

We manage a range of equity, fixed-income, asset allocation, and alternative asset class portfolios, focusing on global, regional, developed, and emerging markets, plus a number of specialty products, including country and sector funds. We continue to offer new products in response to an evolving global market and our clients' evolving needs. The broad scope of our product selection allows us to meet the needs of virtually any client, from large institutional investors and high-net-worth individuals to retirement plan participants.

For more information, please visit us at www.morganstanley.com/im.